



The Gold Standard

The journal of The Gold Standard Institute

<i>Editor</i>	Philip Barton
<i>Regular contributors</i>	Rudy Fritsch Sandeep Jaitly Louis Boulanger
<i>Occasional contributors</i>	Publius Keith Weiner Thomas Allen

The Gold Standard Institute

The purpose of the Institute is to promote an unadulterated Gold Standard

www.goldstandardinstitute.net

<i>Patron</i>	Professor Antal E. Fekete
<i>President</i>	Philip Barton
<i>President – Europe</i>	Thomas Bachheimer
<i>Editor-in-Chief</i>	Rudy Fritsch
<i>Senior Research Fellow</i>	Sandeep Jaitly

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Editorial

Ideological Purity

A variety of gold and silver monetisation schemes have been poking their heads up around the world. Whilst from the New Austrian perspective they may not be ideologically pure, this does not mean they either can or should be dismissed. These are the vehicles that are moving us from debate to piecemeal reintroduction of the monetary metals into general ownership, if not yet circulation. Any monetary reform which achieves that is an important transitional move that demands our support.

From the well-reasoned silver monetisation legislation of Hugo Salinas Price in Mexico, to the moves of some US States to reintroduce gold coin, to similar moves in some Malaysian states, all these parallel currency movements will achieve the purpose of getting real money into people’s hands. They are also providing much wider support for the idea of owning gold and silver. Little to none of the silver or gold coins will circulate, but that can be seen as a plus, not a minus. The point is that they can and will circulate at a moment’s notice when needed. In the meantime, they will continue to perform their primary and vital monetary role as a store of stable value over time.

The latest salvo comes from Thomas Jacob in Switzerland. Herr Jacob has gained the support of the Swiss People’s Party, the largest political party in Switzerland, for the introduction of the new Swiss gold franc. This is another parallel currency move that warrants strong support. Never mind the ideological purity, worry about the monetary purity... will people get to own and hold physical gold or silver is the only valid question. The answer, under Herr Jacob’s scheme, is ‘yes’. We have a ‘hot off the press’ piece from Herr Jacob’s group explaining the rationale behind the Swiss Gold Franc. It was ‘penned’ specifically for this issue of ‘The Gold Standard’.

None of these parallel schemes will stop, or even slow, the collapse of the paper pseudo-monies, nor are they intended to. What they will do is help avoid the worst case scenario wherein when the collapse

does come people are left with no money whatsoever. As long as real money is widely held then the world can struggle through whatever happens. It is only gold and silver that will protect people from the contagious, weeping sores of the socially transmitted paper money disease.

"I want Swiss people to have the freedom to choose a completely different currency. Today's monetary system is all backed by debt — all backed by nothing — and I want people to realize this." - Thomas Jacob

Hear, hear Herr Jacob.

News

Aurum et argentum comparendi sunt

(Gold and Silver must be bought)

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[CNBC](#): The Bank of Korea has purchased gold for the first time in thirteen moves in a move designed to reduce their holdings denominated in US dollars.

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[The Gulf Online](#): The Iranian Central Bank is encouraging citizens to vote on what to name the new currency. What new currency is this you may ask? Well, the new currency that will be in place as soon as four or so zeros are crossed off the end of the present currency.

Citizens will also be able to vote on how many zeros to cross off, though apparently this vote will not be binding on the decision makers.

The government explained that crossing off the zeros will help get inflation under control. It seems that the huge amount of zeros have suddenly and mysteriously appeared out of nowhere and driven up prices. But don't worry citizens, the government is right on top of this problem.

If the rise in prices is caused by wandering bands of marauding zeros then your government will immediately begin a program of culling those zeros.

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[Telegraph](#): **Return of the Gold Standard as world order unravels.** Ambrose Evans-Pritchard... a good observer (and predictor) of what is happening but a little hazy on the subject of money and what constitutes a gold standard.

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[Royal Gazette](#): In Bermuda, the rush is on... to sell gold! This type of story makes me almost despair.

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[Huffington Post](#): Lewis Lehrman backs reputed pro-gold standard Republican presidential contender Tim Pawlenty to the tune of US\$10,000 according to a campaign finance report filed with the Federal Election Commission.

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[Fox News](#): Three Tea Party-Backed Senators Bet Economic Recovery on Gold.

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[The Onion](#): Drunken Ben Bernanke Tells Everyone At Neighborhood Bar How Screwed U.S. Economy Really Is.

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[24hgold](#): Greek central bank adds to gold reserves.

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[Reuters](#): **40 years on from gold standard, bugs crow:** "Traditional investment commentators have dismissed gold ... But those who have predicted its crash since it rose above \$700 an ounce in 2006, on a simple "what goes up, must come down" analysis, have consistently been proved short-sighted."

Letters to the Editor

Did an article in The Gold Standard get you hot under the collar? Feel compelled to share an insight provoked by an author's commentary? "Letters" to the Editor are welcomed by email to pb@monetarymetals.org.

The Eurozone Debt Problem

The problems facing the countries that comprise the Eurozone are becoming more well-known. The problem, apparently, only gravitates around the ‘peripheral’ economies of Portugal, Spain, Italy, Greece and Ireland. Is this a fair assessment? Are all the other countries in a much better fiscal position? The short answer is no.

To sketch the evolution of the future, from the current unprecedented times, is difficult. But a look back in history might help us. Throughout history, the people west of the Baring Straits have had a very familiar association with monetary debasement and chicanery. The form of the chicanery has changed, but the principle remains the same – to disenfranchise creditors in the economic system.

The Romans approached the issue of money with an iron fist. The silver content in one denarius at the end of the empire was 1% of the level at the end of the Republic. Prices, naturally, were denominated in Denarii and woe betide any merchant that raised their prices too much...death by imperial decree would await them. The (western) Roman empire ended in a rather messy fashion.

Fast forward a millennium or so to medieval England, and the form of monetary deception is improved. There is a greater consciousness now over the ‘substance’ of the money rather than its ‘number.’ Edward III faced problems with his gargantuan military expenditure. What happened to the person who came to the Mint to exchange his pound of pure silver for 20 (sterling) silver shillings? Why, he would now get 21 shillings...then later 23 shillings...and finally 25 shillings! What happened to the merchant who priced his goods in pounds, shillings and pence? It is not hard to extrapolate. Move on another few centuries to the time of the Tudors, and Henry VIII resorts to plain debasement in the Roman style. This action earned Henry the nickname “old copper nose,” as the copper foundation to his debased shillings became more apparent with circulation.

What about France? France has a long history of defrauding its people via the manipulation of her

money. Without going into too much detail, the establishment of the “Banque Royal” after Mr. John Law’s corporation, and the development of the ‘assignat’ made many, many humble people wealthy...before sending them back to penury. And Germany? The Weimar episode needs to be elaborated...

The list goes on and on. The bottom line is that creditors get disenfranchised. Will the situation be any different now? Of course it will not, but unprecedented times will call for unprecedented measures. But the topology of the action of these potential measures will be easy to sketch...the purchasing power of the *unit* in question will fall versus other units.

Back to the message at the beginning: Are all the other countries in a much better fiscal position? The short answer is no. Debt to GDP is a starting point. Germany, France, and Belgium have debt to GDP ratios in excess of 80%. Austria’s ratio currently stands at 75%. Furthermore, the yield spread of ‘non-peripheral’ Eurozone countries over German yields is advancing rapidly (the charts of French and Austrian yields over German yields are given below). The marginal productivity of debt – the better measure for long-term solvency – for all of these countries is negative by varying degrees (and a lot more negative than for the United States.)



What will be the resolution for this European debt mountain? It certainly cannot be amortised by 'natural' economic growth – it is far too big for that. The whole region is basically insolvent. How does this insolvency manifest itself? Via continual liquidity issues around the time of bond refinancing (or rolls). How can this situation be remedied?

Remedy is used tongue-in-cheek here. The only solution will be the establishment of an entity to monetize European government bonds directly. Naturally this would be unfunded – just as the British and US monetization schemes were/are. The entity would have to be able to command purchases of upwards of two trillions of Euros (50% of the value of Eurozone narrow money). This would have the effect of bringing solvency and liquidity under control for the countries under consideration... however the flipside will be that the Euro's purchasing power against other currencies, and certainly the US Dollar, will FALL dramatically. Those possessing bonds denominated in Euros will regret it. Those betting on a collapse for the US Dollar against the Euro will be sorely disappointed – and definitely a lot poorer.



Sandeep Jaitly

The 'Gold Basis Service' is a monthly subscription newsletter that describes movements in the gold and silver bases. The service offers forewarning of potential exchange default - as well as of significant changes likely in the gold price and gold-silver ratio from movements in the bases. Along with the monthly gold basis service is the quarterly 'Course of the Exchange' economic commentary. This commentary relates to general observations from a Mengerian perspective on the current market place for global equities; government paper and other goods.

The cost of the subscription is US\$490 per annum. Full details can be found at Bullionbasis.com.

GATA Gold Rush 2011 Was a Blast!

"We remain largely amateurs. At the outset we did not half understand what was going on and what we were setting about to do. Our name preserves that imperfect understanding. We thought we had discovered just another anti-trust violation. It was a while before we perceived that we were up against government policy and that most of what we were discovering had been discovered long ago, at least in principle, just not well taught, publicized, preserved, and made timely again."

Chris Powell, Secretary/Treasurer, Gold Anti-Trust Action Committee Inc., in his opening address at the GATA Gold Rush 2011 conference at the Savoy Hotel in London on 5 August.

In the above remarks, Chris Powell was referring of course to when he and Bill Murphy established back in 1999 the anti-trust committee that is known as GATA. Little did they know, back then, just how rigged the gold market actually was; but it wasn't long before he and Bill realised who they were up against. The rest, as they say, is history. And the GATA Gold Rush conference in London on 4-6 August was exactly that: history in the making.

Never mind that the G7 countries (why do they even bother, still?!) were having a global conference call the day after the GATA event in London. Never mind that S&P downgraded the US debt after the first day of the conference. What mattered was that just before the GATA conference started, Bill Murphy, GATA's Chairman, also affectionately known and much loved as Midas of LeMetropoleCafe.com, actually appeared on CNBC for the first time in over 10 years and wasted no time to tell us as it is! It is still posted on the CNBC website.

I consider it to have been a privilege to be able to attend the GATA Gold Rush 2011 event earlier this month in London. It was also a lot of fun. How could it not be, with guys like Bill and Chris and all the great speakers who came to impart their knowledge with all of us so generously? The location was the newly refurbished Savoy hotel in London: a true classic and the first hotel in London to have electricity and electric lifts in 1889 (although they did not call them lifts just yet, back then, but

‘ascending rooms’! How befitting for the location of a global celebration of an ascending price of gold!

There were, according to Chris Powell, 400 delegates from 38 countries. I myself came from New Zealand, which has to be the farthest place from London on the planet. But I was not alone from New Zealand and there were quite a few Australians as well.

I often wish that GATA was more professional in their approach, so that the professional investment community, including the CFA Institute and all its members and CFA charter holders, who claim to abide by the highest standards and always act in their clients’ best interests when they manage other people’s money, would at least pay some attention to the impressive record of irrefutable evidence (and not conspiracy theory!) that GATA has managed to uncover over the past decade or so. But I now fully understand why GATA remains largely amateurish, as Chris Powell admitted in his remarks.

The GATA organisation was set up to and remains principally concerned with exposing and opposing the rigging of the gold market and related markets; not to advocate a return to sound money, nor to engage with the investment management industry. It remains a very small unit which relies on the generosity of sane individuals who would rather pursue the truth than settle with delusion. Its work is important and attracts an increasing number of intelligent and independent freethinking individuals who contribute on a daily basis to the collective wisdom of what Bill Murphy likes to call the Planet GATA (as opposed to Planet Wall Street).

Indeed, a number of very impressive presentations were made at the conference. Those who I found most interesting personally were from (in order of appearance): Peter George, Ned Naylor-Leland, James McShirley, Adrian Douglas, Jim Sinclair, Alasdair Macleod, Hugo Salinas-Price, James Rickards, Reg Howe and, last but not least, Andrew Maguire himself! The man not only exists for real, but is a true hero and understands the meaning of duty.

Here are just a few of many pearls of wisdom I heard at the GATA gathering in London:

- “Gold is the secret knowledge of the financial universe”, Chris Powell
- “Derivatives are the only thing preventing inflation to get out of control”, James McShirley
- “Just like feudalism ended after 300 years, central banking will also end after 300 years”, James Turk
- “Throughout history bankers and economists have conspired with politicians to circumvent the discipline of sound money” and “Today, the chains of inflation are too weak to be felt, but believe me, they are already too strong to be broken”, Alasdair Macleod
- “The very first thing to do to get people to save is to give them something worth saving”, Hugo Salinas-Price
- “The US is the Saudi Arabia of gold” and “It’s a sad thing when a central bank can’t succeed at creating inflation”, James Rickards
- “Andrew Jackson brought down Nicholas Biddle's bank, and the president can bring down Ben Bernanke's”, Reg Howe.

GO GATA, GO GOLD!

Louis Boulanger

False Belief #7: Gold Ceased To Be Money 40 Years Ago

“...I have directed the Secretary of the Treasury to take the action necessary to defend the dollar against the speculators. I directed Secretary Connally to suspend temporarily the convertibility of the dollar into gold or other reserve assets except in amounts and conditions determined to be in the interest of monetary stability and in the best interest of the United States.”

US President Richard Nixon, in a televised statement to the nation on 15 August 1971. Watch it on YouTube [here](#).

And so, just like that, without any prior warning to all the foreign countries of the world that had the right, under the global monetary system in place since the end of World War II, to request the US to redeem dollars for gold on demand at the fixed exchange rate of 1/35th of an ounce of gold per dollar, tricky Dick plunged the world into the

unknown and kicked off the biggest monetary experiment in human history.

Here we are today, 40 years later, living the inevitable consequences of that tragic decision, which is euphemistically referred to as ‘closing the gold window’! It is worth noting that tricky Dick went on in his historic address referred to above, to say to the American people not to worry about his action and even asserted that *“your dollar will be worth just as much tomorrow as it is today”*... In other words, the effect of his action, he said: *“will be to stabilise the dollar”*.

Well... the dollar may still look and feel the same, but it’s not worth anywhere near the same purchasing power that it had in 1971 prior to that announcement, nor has it been a stable currency. Tricky Dick LIED to the American people and the rest of the world. He knew full well that what he was doing was, in effect, defaulting on his country’s critical obligation under the Bretton Woods Agreement of 1944, on which the global monetary system relied for monetary stability. It was a default, pure and simple.

There were no speculators to defend the dollar against. That was just another lie. There had been an increasing number of foreign nations concerned about the increasing debt of the US government and the rising budget deficits of the US warfare and welfare state. Therefore, as any reasonable person would do, countries increasingly exercised their right to request gold from the US Treasury in exchange for their dollars. In effect, the world was losing confidence in the dollar because the US was increasingly living beyond its means.

And that was the case already, more than forty years ago! In fact, the last nation to succeed in redeeming its dollar reserves for gold was France. President Charles de Gaulle followed the advice of his Finance Minister, Jacques Rueff, a very strong and articulate advocate for a return to the gold standard since 1961. France even took the step of sending two (or was it three?) navy ships across the Atlantic to make sure they got the gold and brought it back to France. Other nations also tried to do the same after France, but it was too late.

By then, the US Treasury gold reserves had already depleted significantly, by around 12,000 metric tonnes or nearly 400 million ounces of gold, since their peak after World War II of more than 20,000 tonnes. THAT was the real problem the US had: it was losing its gold because it was not being a good fiduciary of the only currency in the world that could be redeemed in gold on demand. It was not speculators attacking the dollar.

As more and more debt was being issued by the US government and none of it was now being paid back (since 1961, only interest on the debt has ever been paid, with the principal of maturing debt simply rolled over into new issues of treasury bonds), foreign states began exercising their right to exchange their dollars for gold. As far as money is concerned, gold was again beginning to be preferred over dollars. It reached a point where the choice for the US was to either debase the dollar – i.e. convertibility into gold would need to go from 1/35th to, say, 1/70th of an ounce of gold – or default on its foreign gold obligations.

Of course, the US had an exorbitant privilege, as Charles de Gaulle called it (and new IMF head Christine Lagarde alluded to recently), under the Bretton Woods global monetary system of the post WW II era. But, it should be noted also that it came with an equally important obligation: to redeem foreign states’ dollars on demand for gold at the then stated worth of a dollar, which was equal to 1/35th of a troy ounce of gold. THAT was the definition of a dollar under the Bretton Woods system.

Today, we have NO definition, i.e. no absolute measure of the value of a dollar, or any other currency for that matter. All currencies are valued in relative terms to each other, but none are redeemable on demand at a pre-determined unit of weight of monetary metal, gold or silver. Therefore, we simply do not know on any given day what the purchasing power of any currency will be in the future, let alone the next day. But what we DO KNOW is that gold is still money, whatever modern day tricky dicks might say.

Nixon’s suspension of the convertibility of the dollar into gold was announced forty years ago as a *“temporary”* measure... until it was once again to be,

he said, “*in the best interest of the United States*” for such convertibility to return. What does that mean? It means that it has not yet been in the best interest of the US to do so. When will that day come? Nobody knows. It may never come. Some other nation may decide to do make its currency redeemable on demand into gold or silver before the US does. It does not matter.

What matters is that you believe that gold REMAINS money, despite all the tricky political and monetary shenanigans of the last forty years and the ones yet to come. Remember also that it was Nixon’s man at the US Treasury, John Connally, who famously said to Europeans worried about exchange rate fluctuations that the American dollar “*is our currency, but your problem*”. Well, I say: gold is our (the people) currency and your problem now! Protect yourself from ongoing fiat abuse and own gold and silver bullion.



Louis Boulanger

Louis holds a B.Sc. from Laval University in Canada; is a Fellow of the Canadian Institute of Actuaries and the New Zealand Society of Actuaries; and is a Chartered Financial Analyst.

Prior to coming to New Zealand in 1986, Louis worked for nine years with a global consulting firm based in Montreal, Canada. In New Zealand, Louis worked for another global consulting firm for 18 years, including as Chief Executive of New Zealand operations for five years. In 2006, he launched his private practice.

Louis is also Founder & Director of LB Now Ltd, which provides independent investment advice to private and institutional clients, facilitates the purchase of bullion for private and institutional clients as an authorized dealer for BMG BullionBars and also helps firms comply with GIPS.

For more information of LB Now's services or to subscribed to Louis' e-letter 'Prosper!' see the contact details below.

louisboulanger^{now}
Freethinking Investment Strategies

P.O. Box 25 676, St Heliers, Auckland 1740, New Zealand
Ph: +64 9 528 3586 Mob: +64 275 665 095
Email: louis@lbnnow.co.nz www.lbnnow.co.nz

When Debt Masquerades as Money

There is an amazing amount of confusion, or more accurately obfuscation, in the world of money, finance, and economy. The ‘powers that be’ at the Fed and the Treasury claim that one needs at least a PhD, if not a Doctorate to understand what is going on in the economy.

This is the worst kind of rubbish possible. At bottom, at the root, economics is actually simple, easy, and ‘common sense’. To clarify our understanding, we just need to have a clear grasp of a few basic concepts and the words used to describe them. For example, there is much talk about ‘debt money’... but this is a grievous contradiction in terms... debt and money, like fire and water, are poles apart. Just as water extinguishes fire, so money extinguishes debt.

Let us define debt and money before going any further...

‘Debt; the exchange of a present good for a future good’.

‘Money; that which extinguishes all debt’.

To understand what these definitions mean in real life, let’s look at a simple example of credit... or debt. Suppose I call my friend Joe and ask to borrow a pound of sugar; he agrees, and I write him an IOU that says ‘I owe you’ a pound of sugar, and I promise to give it back next week when I go shopping.

I am now in debt to Joe for a pound of sugar, or what is the flip side, Joe has extended me credit in the form of a pound of sugar. The sugar is a present good, and the IOU or debt paper, a future good... the promise of a present good. Come next week, I give Joe back the sugar, he rips up the IOU which is now fulfilled, and the debt has been extinguished... by the present good... as promised. Pretty simple and straight forward. So far, I don’t see any need for that PhD.

But suppose I forget to buy sugar, and when the debt comes due, I cannot pay it back; instead, I anxiously call my friend Jill, ask her if she has a pound of sugar, and if she is willing to lend it to me;

she says yes, so I give Jill's sugar to Joe, and transfer the IOU to Jill... to whom I now owe a pound of sugar.

Clearly Joe is out of the loop, that is he has been 'paid'... but the debt has NOT been extinguished, merely transferred... I now owe the pound of sugar to Jill. This is exactly how so called 'debt money' operates; debt is merely shuffled around, never extinguished. More on this in a second, but the question is since sugar extinguished debt, should it be considered 'money'?

Remember, the definition says money extinguishes ALL debt, not just some debt. If the debt your company owes you for your week's work were to be paid to you in sacks and sacks of sugar, you would not be a happy camper... or if you tried to buy a TV set and showed up at the electronics store with sacks of sugar, you would not get very far. Sugar is a commodity, an item of positive value, a present good... but it is not money. It is not able to extinguishing all debt. To understand his concept, one does not need a Doctorate ... does one?

SO, how does 'debt money' operate in today's world? Very simple; the Fed or any other central bank issues 'notes' called Dollar bills, or Euros... and these bank notes represent a liability on the bank's books, just as my sugar IOU is my liability. When we 'pay' a debt with Dollar bills, or any other bank note, we are NOT repaying or extinguishing the debt, merely shuffling the Fed's IOU's to someone else. Debt is not extinguished, merely transferred.

Of course, it is not very clear as to what the bank note is promising to pay, unlike the sugar IOU that promises a given quantity of sugar. The reason for this lack of clarity? The simple fact that that the bank notes are fraudulent. They are promises to pay... nothing.

This is in sharp contrast to the meaning of bank notes before WWI, when the world was still on the classical Gold Standard. Back then, it was perfectly clear that bank notes were IOU's that promised to pay money (Gold). In a word, bank notes were redeemable in real money.

All this changed drastically before WWI. The powers that be knew that a major war would be enormously expensive; as the prospect of war hardened, the 'great powers' started to recall their Gold, in effect calling their debts, and filling their treasuries. The Gold thus accumulated was substantial, but not nearly enough to finance a major war.

This was well understood; the pundits at the time predicted that a major war could not last more than a few months at best, as all the combatants would drain their treasuries, and run out of money (Gold) to finance a long war. In anticipation of this, 'legal tender' laws were passed, first by France then by Germany... laws decreeing that bank notes were to be considered... money! By waving a magic wand, Governments supposedly turned IOU's into money. The legal tender laws were the first nail in the coffin of the classical Gold Standard.

All this chicanery was well disguised, and Gold coins continued to circulate alongside Gold; indeed banks still exchanged paper notes for Gold on request... for a while. By the nineteen thirties, this was no longer true; Roosevelt forbade American citizens from even owning Gold. This decree was the third nail in the coffin... the second nail was the destruction of Gold's clearing system, the circulation of Real Bills.

Real Bills financed multilateral trade under Gold, at the lowest cost possible. In preparation for war, multilateral trade was destroyed. Sadly, once the war was over, 'legal tender' legislation was not repealed and multilateral trade and Real Bills circulation were not allowed to resume. The paper system rolled on... then Nixon put the last nail in the Gold Standard coffin by defaulting on US Gold obligations.

The remaining question is; what assets offset the liabilities in the Treasury's balance sheet today? Before WWI it was Gold... but not today. Are these assets something else of real value, present goods like Gold is...? No, the assets of the Treasury today are the "Full Faith and Credit" of the US Government. In our topsy-turvy world, Faith and Credit are called assets!

But what does all this really mean? The assumption is that the government, with its 'unlimited' taxing power, can always pay back its debts... eventually. Or at least, the belief is that it can and will do so. In reality, Treasury debt is assumed in the name of tax payers, without their consent... in effect, once the debt becomes large enough, realistically unpayable, taxpaying citizens are enslaved. They have no say in the amount of debt assumed in their names... all their future labor is confiscated to pay these onerous debts. This is the very definition of slavery; working for a master, at the point of a gun, for the Master's benefit!

But the issue goes beyond this; because debt is masquerading as money means that any statement using the word 'money' needs to be restated, using DEBT where the word money is now used. For example, there is a lot of talk about money supply, like the 'growth of the money supply'... this needs to be understood as 'growth of the debt supply'. The fanciful monetarist statement that inflation is a case of 'more money chasing less goods' needs to be restated as; 'more debt chasing less goods'. Well all this is bad enough, but unfortunately reality is even worse than this.

The very mechanism of 'money creation' is synonymous with 'debt creation'. If money is debt, it must by definition be borrowed into existence; else it would not be debt. This implies that if debt were ever to be repaid, rather than just shuttled around, then the money that debt pretends to be would disappear. If debt is money, the disappearance of debt equals the disappearance of money. This is logically inevitable, and it is underlies the death spiral of catastrophic deflation that the 'powers that be' want to avoid at all cost. Retiring debt equals retiring money... after all, money is debt, right?

The cost of avoiding such deadly deflation is very high indeed; more and more debt needs to be created to avoid deflation. This is true because debt is never extinguished, and new money needs to be created to pay the interest; new money equals new debt... and even more interest payments. Sooner or later the debt growth becomes totally unupportable by the real economies of the world. The interest payments mount until all wealth must be used to

simply pay interest. We are fast approaching this point. The debt growth curve is not linear, is not geometric, but is exponential... the famous hockey stick curve... and we are well up the handle.

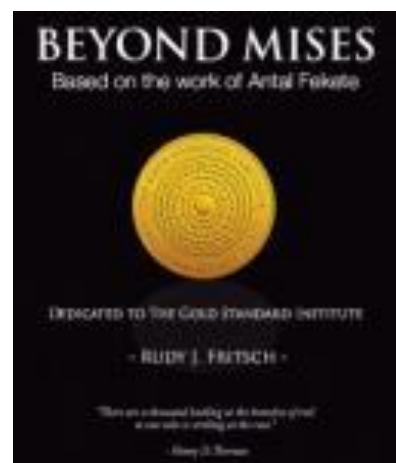
If deflation is avoided by printing ever more debt... er 'money'... then the value, or rather purchasing power of all this 'money' soon reaches zero. This is the hyperinflationary blowout that is the only possible alternative to deadly deflation... if there is no systemic change. To stop this disaster, the masquerade of debt as money must stop; something of positive value must replace debt (negative value) as money.

Just as sugar can extinguish debt, and retire IOU's, money of positive value must be used to retire or extinguish all debt. Five thousand years of human history as well as innumerable technical reasons insist that real money, the real extinguisher of all debt, is Gold.



Rudy Fritsch

Rudy's book *Beyond Mises* was written to make Professor Fekete's work and Austrian economics accessible. It can be ordered directly from <http://www.beyondmises.com/>



Should Bills of Exchange Be Allowed as Money?

One argument against the real bills doctrine is that a bill of exchange is credit, and such credit should not be used as money. Most people presenting this argument do not object to all types of credit being used as money. They accept some types of credit money, but object to other types of credit money.

Under the true gold standard, only full-bodied coins are true money. All other purchasing media are types of credit money.

Most who present this argument against the real bills doctrine seem to accept the use of token coins. Token coins are needed to buy low valued items like a box of matches, which is worth less than a speck of gold. Token coins are a form of credit that function as money.

Most seem to allow the use of checks and gold certificates. Checks and gold certificates are forms of credit that function as money. A check is an order to a bank to transfer gold from one account to another or to transfer gold from an account to cash in gold coins. A gold certificate is essentially a warehouse receipt for gold and can be converted to gold at anytime.

However, they object to using bills of exchange as money. A bill of exchange is a spontaneously market-generated form of credit money that some call commercial money. So why discriminate against this type of credit money? Commercial money is more like gold than other forms of credit money in that it is a spontaneous market creation. To prevent the use of bills of exchange as money requires using political forces to overrule a natural market function.

The above discussion assumes the true gold-coin standard accompanied by a decentralized competitive banking system without special privileges.

Thomas Allen

Thomas Allen has been a student and adherent supporter of the gold standard and the real bills doctrine since 1972. In 2009, he wrote and published *Reconstruction of America's Monetary and Banking System: A Return to Constitutional Money*. Many of his

writings on money and other subjects can be found at <http://tcallenco.blogspot.com/> and an index to these blogs is at <http://tcallenco.weebly.com/>

The Swiss Gold Franc

Using gold as money should be an option, not an obligation. Usage of money typically requires two parties, such as a buyer and a seller, or a saver and a banker. Whenever both parties agree to use gold as money, their right to do so must be legally protected. This is not the case right now. The US outlawed gold ownership and circulation in 1933, so it could happen to you anytime.

Switzerland has a project to amend the Constitution to protect those who wish to use gold as money. This is the “Gold Franc” project. It was launched last year by a Swiss citizen named Thomas Jacob. Mr. Jacob’s idea attracted a number of followers, who started to meet regularly, and eventually decided to found the “Gold Franc Association”. He managed to convince a group of parliamentarians from the largest party in Switzerland to deposit an initiative to institute the Gold Franc as a parallel currency to the paper Swiss Franc. This initiative is currently under review by the Economics and Taxation Committee. Parliamentary hearings are expected later in the year.

The Gold Franc would be defined as a fixed weight of gold, such as One Decigram. Its exchange rate with the paper Swiss Franc would fluctuate freely according to market forces, like any other currency.

This is not a “return to the Gold Standard”. When Keynes famously coined the phrase “barbarous relic”, he was not applying it to gold *per se*, but to the Gold Standard as it had been practiced in the interwar era. Current Fed Chairman Ben Bernanke himself said that the Great Depression was due to “a structurally flawed and poorly managed international Gold Standard”. We are not returning to that. We are inventing a monetary system that combines the best of both worlds, and that has never been seen before on the face of the Earth.

On the one hand, we will legalize a *Gold Specie Standard* such as the one that underpinned progress in the Western world from the Middle Ages until the

outbreak of World War I. This is the period that allowed Europe to rise above the rest of the world in terms of prosperity, science and technology. In simple terms, it means that gold coins will circulate as monetary and savings instruments.

On the other hand, paper money will be allowed to continue its existence. It will even remain *legal tender*, meaning that if both parties in a transaction disagree as to what money should be used, paper wins over gold. We are very much willing to concede this advantage to paper, because in the end it does not matter. You cannot force people to accept gold as payment if they prefer paper. Just keep your gold and give them paper!

Thus, for the first time in history, gold coins (100% commodity-backed money) will coexist with pure fiat money. This has never happened. We believe that it will be extremely beneficial to Switzerland, and to any other country who subsequently adopts this system. Everybody should have the right to use the type of money they prefer. This is, first and foremost, about **choice**.

If and when this constitutional amendment goes through, for the first time in our lifetime, gold will be money. Currently, gold is not money. Gold is *perceived* as money by some people. Gold was money *in the past*. Gold may become money again *in the future*. But gold is not used as money anywhere in the world right now.

Gold will be money, at least in Switzerland. Switzerland is small geographically but big financially. Basel is home to the Bank for International Settlements, the world's oldest international financial organisation, and #1 international banking regulator of the past few decades. Zurich is a – if not *the* – leading market in the world for physical gold. Zug hosts many of the world's largest commodity traders. Therefore the Gold Franc project is a development of worldwide importance. It means that physical demand for gold will no longer be limited to Indian jewelry: there will be an additional Swiss monetary component.

Obviously, after the Swiss reform has proven successful, other countries may be tempted to adopt similar laws, thereby putting further upward pressure

on the gold price. But let's just focus on Switzerland for the moment.

Total Assets Under Management (AUM) for Swiss pension funds was estimated at roughly USD 700 bn in 2010. In addition, AUM held by insurance companies in the same year were at roughly USD 300 bn, according to FINMA numbers (when only considering bankable assets). Putting these two figures together gives us an estimated USD 1000 bn of assets held by insurers and pension funds. Assume only 1% of these assets are switched out of the paper Swiss Franc into the Gold Franc. With the gold price at USD 1600 per ounce we could buy 6,250,000 ounces of gold, which corresponds to about 195 tonnes. In 2010, total annual gold demand was about 3800 tonnes, of which about 1300 was identifiable investment demand. Therefore, every 1% of Swiss assets that switch into the Gold Franc increase investment demand for gold by 15%.

An academic study from the City University Business School in London estimates the price elasticity of gold in the range from -0.5 to -1.0. Let's take -0.75 as a median number. This means that every 1% of Swiss assets that switch into the Gold Franc would push up the gold price by approximately 11%. This eleven-fold multiplier is impressive, given there are only 8 million people in Switzerland! It is due to two main factors: 1) the importance of Switzerland as a global financial center, and 2) the tiny size of the physical gold market.

The Gold Franc Association is actively looking for sponsors willing to finance a campaign to raise public awareness about the Gold Franc among Swiss voters, who will ultimately decide the fate of this project in a referendum. International investors who own physical gold and wish to contribute to this campaign in order to support the value of their holdings – and to further the cause of sound money – can contact Mr. Thomas Jacob directly at info@schweizer-golfranken.ch.

Gold Franc Association

What Does “Subjective” Value Mean?

The question “what is value” must first be addressed outside the field of economics; it is one of the fundamental questions in the field of philosophy. It is the core of the branch of philosophy known as ethics. For millennia, philosophers debated the nature of value. One view was that value is intrinsic - given by a supernatural being, or given in the nature of things (a variant of this is that value is created by the labor that goes into making something). The other was that it was subjective - whatever any person wanted it to be.

Of course, these views are a false dichotomy. The flaw with the intrinsic view can be seen with the example of a drowning man, to whom water is not a value. The flaw with the subjective view can be seen with the example of the madman who tries to eat lead and drink petrol.

Ayn Rand defined value, in philosophy, as “that which one acts to gain or keep.” She noted that living things are fundamentally different from non-living things. They have an attribute that can go out of existence: their lives. Life requires of every living thing that it act to gain or keep values. Even a plant must grow its roots towards water, and its stem towards light.

And man is distinguished from all other animals in that he has a choice. Unlike animals, which act on instincts that are pre-programmed in, man has a choice. This choice extends to values. Values are not automatically given as a result of instincts, revelations, or any other process outside of consciousness. And man can make mistakes. And some values are “optional”: the preference for vanilla vs. chocolate ice cream, for example.

The proper approach to value in man, therefore, begins with recognizing value is determined by an act of consciousness. Man’s nature is to think and act based on his conclusions. But it is also necessary to recognize that value is not arbitrary. Value is not any whim that a drunk, stoned, or dysfunctional consciousness can dream up. There is a beat poem [“Storm”](#) which makes the point, among many

others, that one is not free to walk out the second story window.

A value, therefore, is based on an act of consciousness and also on reality. One recognizes that something in existence will sustain or further one’s life.

One cannot ask the question “of value?” without first answering; to whom and for what.

This is where economics begins, after philosophy has done its job as described above. Carl Menger was the first to apply this approach to value - that it is the individual who is the unit valuer. It is meaningless to speak of nations, societies, or collectives. It is as meaningless to speak of value as being intrinsic to an inanimate thing. And it is as meaningless as speaking of value being arbitrary, capricious, spurious, or disconnected from reality, life, and reason.

This is what I think Menger meant by “subjective”: the individual is the proper subject of economics, not the class of the laborers or the nation of the British.

I think one will find with this concept clearly defined that it does not change the meaning of Menger’s ideas, nor economic analysis. But it will help explain numerous phenomena, for example that marginal utility declines.

Why is this so? Why does everyone value the 11th unit of wheat less than the 1st unit? It is because they value wheat for eating. But one’s need to eat is finite and once it is satisfied, one moves on to satisfy other needs.

I think this issue is important because Austrian School economics is about free markets and freedom generally. The statist have a very different (and dishonest) view of economics. There is a philosophy that leads to and proves that free markets and freedom is not only the way to prosperity but also the only moral kind of system. I plan to write more about this connection between gold, liberty, and philosophy in future pieces.

Keith Weiner

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How Much Gold Does One Need to Retire?

A comment recently attributed to Richard Russell suggested that to be truly wealthy, one needed 3,000 ounces of gold. Arbitrary, perhaps, and lacking the math or logic. But unlikely to draw much dissent.

Of wider interest is the question of how much gold one needs for a modest retirement. In my grandfather's day, as my wise father once explained, retirement planning was simple. You bought a house, paid it off, then bought a second house to rent out and paid that off too. Then you could retire, with no housing expense, and a rental income to cover other living costs. Simple indeed. No reliance on ever-rising real estate values or 10% equity returns, and no dependence on any pension or government.

Today, sadly, retirement planning is anything but simple. Painfully accumulated savings must somehow overcome an unknowable inflation rate and/or a minefield of other risks disguised as "conservative" investment alternatives. Fortunately, we still have gold, not only as a store of value but also as a unit of account.

In my last article, I suggested successful conversion of one's metal into an income-producing asset class like equities required knowledge of:

- a) when stocks were fairly valued, and
- b) the future purchasing power of gold.

Assuming a specific target income level as the desired end result of the trade, it is not enough merely to know *when* to exchange metal for dividend income. The stock-purchaser must also predict *what that dividend income will buy*. Without some level of certainty on both accounts, one may miscalculate and end up with a dramatically sub-optimal result.

The best stock valuation methodology I have found was contained in my previous piece. Predicting the future purchasing power of gold is a more complex question, but there is at least one approach.

The asset classes had natural, stable yields under the gold standard, and these can be a guide to us today.

As near as I can determine, those historic annualized returns were as follows:

(Real) Bills	2%
Bonds	2.75 - 3.25%
Real Estate	4 - 5% (yield net of all expenses)
Stocks	6 - 8% (earnings yield, not dividend)

The progression of level and variability in these returns has intuitive appeal. They are an application of the risk-return trade-off that must act as a natural law, inextinguishable even by a fiat system's illusions.

Where today's yields have strayed, we can work backwards to determine the extent to which fiat money has distorted their values. From that, we can estimate the expected change in the purchasing power of gold upon the death of the current system.

I concede this approach does not lend itself to rigorous quantification, and readers with specialized knowledge of real estate or equities may already be questioning the roughness of my approximations and assumptions. But as I have not seen any substantive discussion of the expected purchasing power of gold, only of its potential dollar value after the current crisis subsides, I offer what I can.

Many writers argue that the paper dollar system will be "saved" by a higher gold price (\$5,000 - \$20,000/oz) and the global economy and asset prices will thereafter quickly stabilize. This is itself an oversimplification of the question in that scenario, but at least it is a useful attempt to build a predictive framework. I seek to model the other likely scenario – a complete replacement of fiat currency by monetary metal(s).

My logic rests on the idea that if the asset classes return to their historic equilibrium prices (yields), this adjustment must take place independent of gold's value. In other words, if a rental property today cost 100 ounces of gold and yielded 2 ounces net profit (2%) annually, it will have to fall in price to 44 ounces of gold to yield 4.5%.

If you apply this principle to both stocks and real estate, on a global scale, the actual *relative* purchasing power of gold increases by the inverse of the weighted-average over-valuation of the other asset

classes. My best estimates call for at least a doubling of gold's true relative value, from today's levels. Another way of thinking of this result is as a numerical demonstration of the old saying "in times of economic uncertainty, cash is king."

As an aside, the true natural average value of fixed income investments under such a scenario is more difficult to predict. Some will end up worthless, others will transform into equity or real estate through the default process. A simple estimate would be that they will stabilize in value at a point similar to that of the other two main asset classes, that is, about 50% lower than today.

To answer our original question, the math would be as follows. 1,000 ounces of gold would yield an annual return (assuming a diversified portfolio of the asset classes) of somewhere around 4%, or 40 ounces of gold. At \$1,600 (x2) per ounce, the expected pre-tax income from this nest-egg would be equal to \$128,000 of today's dollars. One thousand ounces of gold might not provide an income adequate to all tastes, but it gives a fair baseline for financial independence.

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